

BEFORE THE POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

Periodic Reporting

Docket No. RM2012-____

**PETITION OF PITNEY BOWES INC. FOR THE INITIATION
OF A PROCEEDING TO CONSIDER PROPOSED
CHANGES IN ANALYTIC PRINCIPLE**

Pursuant to 39 C.F.R. § 3050.11, Pitney Bowes Inc. (Pitney Bowes) respectfully requests that the Commission initiate a proceeding to consider a proposal to change an accepted analytic principle. As discussed in detail in the attached text, the proposal requests a change in the First-Class Mail Automation Letter presort tree used for the purpose of estimating workshare cost avoidances and passthroughs.

Respectfully submitted,

/s/

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PROPOSED CHANGE IN METHODOLOGY FOR ESTIMATING FIRST-CLASS MAIL AUTOMATION LETTER WORKSHARE COST AVOIDANCES

OBJECTIVE:

To adjust the presort tree used to estimate First-Class Mail Automation Letter cost avoidances for consistency with the January 2012 elimination of the price incentive to sort First-Class Mail Automation Letters to 3-Digit.¹

BACKGROUND:

In May 2009, the Postal Service changed the mail preparation requirements for First-Class Mail Automation Letters to make 3-Digit tray preparation optional (although required to qualify for the 3-Digit Automation Letter rate). *See* DMM 235.6.6. In January 2012, the Postal Service eliminated the price difference between First-Class Mail Automated Area Distribution Center (AADC) Letters and 3-Digit Automation Letters. *See* Dkt. No. R2012-3, USPS Notice of Market-Dominant Price Adjustment (Oct. 18, 2011) at 13; Order No. 987 (Nov. 22, 2011) at 10. Although both the AADC and 3-Digit tiers were maintained in the rate schedule, the prices for both now are the same: 37.4 cents. *See* USPS Price List (Notice 123)(effective Jun. 24, 2012) at 11.

Because there is no longer a price advantage nor any mail preparation requirement, for a mailer to perform the additional work to presort First-Class Mail Automation Letters into 3-Digit trays (as opposed to AADC trays), the choice facing the mailer is now among the Mixed AADC, AADC and 5-Digit preparation. For these reasons, there is no need to calculate a workshare cost

¹ Because the Postal Service has not eliminated the incentive to sort First-Class Mail Automation Cards or Standard Mail Automation Letters to 3-Digit, no corresponding changes to First-Class Mail Automation Card or Standard Mail Automation Letter cost avoidance calculations are needed.

avoidance or passthrough for 3-Digit Automation Letters. Additionally, 3-Digit Automation Letters is no longer the correct reference point for the purpose of estimating the 5-Digit Automation Letter cost avoidance and passthrough calculations.

The obsolescence of the 3-Digit Automation Letters tier in the presort tree is intuitive; the selection of a new intermediate tier in the presort tree is less obvious. There are two reasonable candidates. The first is AADC Automation Letters (which is a tier in the current presort tree). The second is a “blended” AADC / 3-Digit Automation Letters tier that reflects the mix of AADC and 3-Digit Automation Letter volume.

In Docket No. ACR2011, focusing on the appropriate benchmark for estimating the 5-Digit Automation Letter cost avoidance, Pitney Bowes and others argued in favor of establishing AADC Automation Letters as the intermediate tier in the presort tree.² From the mailer’s perspective, the economic choice is between satisfying the presort requirements to qualify for AADC Automation Letters at 37.4 cents or performing the additional work required to qualify as 5-Digit Automation Letters at 35.0 cents. Because there is no price differential (incentive) or preparation requirement for 3-Digit Automation Letters, the 5-Digit Automation Letters cost avoidance and passthrough calculations should be measured relative to AADC Automation Letters.

Figure 1 below compares the current First-Class Mail Automation Letters presort tree with a presort tree using AADC Automation Letters as the intermediate tier.

² See Dkt. No. ACR2011, Comments of Pitney Bowes (Feb. 3, 2012) at 8-9; NPPC Reply Comments (Feb. 17, 2012) at 6.

**Figure 1. First-Class Mail Automation Letter Presort Tree:
AADC Intermediate Tier**

Current Presort Tree		AADC Intermediate Tier	
Type of Worksharing	Benchmark	Type of Worksharing	Benchmark
Automation AADC Letters	Automation Mixed AADC Letters	Automation AADC Letters	Automation Mixed AADC Letters
Automation 3-Digit Letters	Automation AADC Letters	Automation 5-Digit Letters	Automation AADC Letters
Automation 5-Digit Letters	Automation 3-Digit Letters		

A more conservative approach would be to adopt a “blended” AADC / 3-Digit intermediate tier. This approach would use a weighted (by volume) average cost of AADC and 3-Digit Automation Letters in calculating Automation Letter cost avoidances to reflect the fact that the transition from 3-Digit preparation to AADC preparation may occur over time.³ Billing determinants show that a substantial shift from 3-Digit preparation to AADC preparation has already occurred, but there will likely be residual 3-Digit volume for some time.⁴ During this period, an AADC / 3-Digit Automation Letter cost avoidance would be measured relative to a Mixed AADC Automation Letter benchmark and the 5-Digit Automation Letter cost avoidance would be measured relative to a blended AADC / 3-Digit Automation Letter benchmark.

Figure 2 below compares the workshare relationships under the current First-Class Mail Automation Letters presort tree with the relationships using a blended AADC / 3-Digit Automation Letters intermediate tier.

³ There is precedent for the use of a blended tier: for example, this is similar to how the cost of the combined Nonautomation Presort Letter (machinable) rate category is estimated. See PRC-ACR2011-2, FCM_LTRS.FAST Revision_prc.xls, “PRESORT LETTERS SUM,” cells G47 and I47.

⁴ In the first quarter of FY2012, the last full quarter before the equalization of the AADC and 3-Digit Automation Letter rates, AADC Automation Letters comprised only 18 percent of combined AADC and 3-Digit Automation Letters volume. This percentage jumped to 36 percent in the second quarter of FY2012. Among other reasons, residual 3-Digit volume may be due to the fact that default settings in legacy commercial presort software are set to prepare 3-Digit trays.

**Figure 2. First-Class Mail Automation Letter Presort Tree:
AADC / 3-Digit Intermediate Tier**

Current Presort Tree

Type of Worksharing	Benchmark
Automation AADC Letters	Automation Mixed AADC Letters
Automation 3-Digit Letters	Automation AADC Letters
Automation 5-Digit Letters	Automation 3-Digit Letters

AADC/3-Digit Intermediate Tier

Type of Worksharing	Benchmark
Automation AADC/3-Digit Letters	Automation Mixed AADC Letters
Automation 5-Digit Letters	Automation AADC/3-Digit Letters

IMPACT:

Tables 1, 2, and 3 below show FY 2011 Automation Letter cost avoidances under the current presort tree, a presort tree with an AADC intermediate tier, and a presort tree using a blended AADC / 3-Digit intermediate tier, respectively. Because FY 2012 Quarter 3 and 4 volume weights are not yet available, the figures in Table 3 for the blended AADC / 3-Digit category are based upon the assumption that AADC Automation Letters will comprise half of combined AADC and 3-Digit Automation Letter volume in these quarters. Actual volumes will be available for purposes of the FY 2012 Annual Compliance Report.

**Table 1. First-Class Mail Automation Letter Cost Avoidances (in Cents):
Current Presort Tree**

Type of Worksharing	Benchmark	Cost Avoidance
Automation AADC Letters	Automation Mixed AADC Letters	2.15
Automation 3-Digit Letters	Automation AADC Letters	0.37
Automation 5-Digit Letters	Automation 3-Digit Letters	2.46

**Table 2. First-Class Mail Automation Letter Cost Avoidances (in Cents):
AADC Intermediate Tier**

Type of Worksharing	Benchmark	Cost Avoidance
Automation AADC Letters	Automation Mixed AADC Letters	2.15
Automation 5-Digit Letters	Automation AADC Letters	2.82

**Table 3. First-Class Mail Automation Letter Cost Avoidances (in Cents):
Blended AADC / 3-Digit Intermediate Tier**

Type of Worksharing	Benchmark	Cost Avoidance
Automation AADC Letters	Automation Mixed AADC Letters	2.15
Automation 5-Digit Letters	Automation AADC Letters	2.82

MECHANICS:

PB-LR-1 – which contains a modified version of Docket No. ACR2011, PRC-LR-ACR2011-2, FCM_LTRS.FAST Revision_prc.xls – shows the calculations underlying the proposed change in analytic principle under both alternatives – an AADC intermediate tier and a blended AADC / 3-Digit Automation Letters intermediate tier.

The calculations are performed and fully sourced in a newly-inserted tab entitled “Petition Calculations.”